

[For Immediate Release]

NetDragon Websoft Inc. Announces 2012 Second Quarter and Interim Results

2Q Revenue Increased 16.5% Over 1Q 2012
Mobile Internet Revenue Increased 65.5% Over 1Q 2012

[August 24, 2012, Hong Kong] **NetDragon Websoft Inc.** (“NetDragon”; Stock Code: 777), a leading developer and operator of online games and mobile internet platforms in China, today announced its unaudited interim financial results for the period ended June 30, 2012. Additionally, a conference call and live webcast is scheduled at 7:00 PM, August 24, 2012 Hong Kong time (7:00 AM Eastern Daylight, August 24) to review the company's performance and recent business developments.

Second Quarter 2012 Financial and Operational Highlights

- Total Revenues were RMB276.1 million, an increase of 16.5% over the first quarter of 2012 (“QoQ”), and an increase of 49.8% over the second quarter of 2011 (“YoY”);
- Revenue from Online Games was RMB201.0 million, an increase of 4.9% QoQ, and an increase of 14.9% YoY;
- Revenue from Mobile Internet was RMB75.1 million, an increase of 65.5% QoQ, and an increase of 695.9% YoY;
- Gross Profit was RMB233.7 million, an increase of 12.0% QoQ, and an increase of 37.3% YoY;
- Operating Profit was RMB63.2 million, a decrease of 1.3% QoQ, and an increase of 11.6% YoY;
- Pro Forma Operating Profit¹ was RMB86.6 million, an increase of 19.7% QoQ, and an increase of 53.1% YoY;
- Profit Attributable to Owners of the Company was RMB45.0 million, a decrease of 19.3% QoQ, and an increase of 4.9% YoY;
- Pro Forma Net Profit was RMB68.7 million, an increase of 6.4% QoQ, and an increase of 59.8% YoY;
- Basic earnings per share (“EPS”) were RMB8.75 cents, while diluted earnings per share were RMB8.73 cents;
- Peak concurrent users (“PCU”) for online games were 582,000, down 3.0% QoQ and down 9.5% YoY;
- Average concurrent users (“ACU”) for online games were 307,000, up 3.4% QoQ and down 1.3% YoY;
- The Board has resolved to declare an interim dividend of HKD0.15 per share on or about 14 September, 2012 for the six months ended June 30, 2012, which will be paid to shareholders whose names appeared on the register of members of the company on 11 September, 2012.

Mr. Liu Dejian, Chairman and Executive Director of NetDragon, commented, “During the first half of 2012, NetDragon maintained steady growth of the online games business and also achieved significant growth in the mobile internet business. Total revenue and profit for the period grew 50.4% and 29.9% respectively year-over-year, demonstrating improvements of the 'dual-engine' growth model that NetDragon implemented in recent years. Our management is delighted with our performance in the first half and has full confidence in achieving NetDragon's 2012 overall strategic goals.”

“Our online games revenue increased approximately 20.6% over the first half of 2011 amid increasingly fierce competition in China's online gaming market, perfectly evidencing that the strategy we adopted in response to the new

¹ See “Pro Forma Financial Measures” section for more details on the reasons for presenting these measures

market environment has paid off. During the first half of the year, Eudemons Online's Chinese version expansion pack 'Legacy of Asgard' was officially launched and received enthusiastic response from players, contributing to an increase in the title's average concurrent users. Going forward, Eudemons Online's new EP and the 3.0 version of Conquer Online will be launched during the next half year. Both reflect our strategy of continuously updating existing games to extend the lifecycle of our products. Looking at new products, our first 3D MMORPG Dungeon Keeper Online entered preliminary open beta testing in April 2012 and is scheduled for official open beta testing after further improvements based on players' feedback. In addition, NetDragon will continue to launch EPs in different languages and new products, all with the aim of boosting the revenues and presence in overseas markets."

"Our mobile internet business maintained its revenue growth momentum in the first half with an increase of 675.6% over the first half of 2011. Of significance, the user scopes of our marketplaces have been continuously expanding as well. In June, 91 PC Suite surpassed 100 million total users, becoming the first third-party smartphone app distribution platform to break the 100 million users mark in China's mobile internet business. Add to this 32 million users of HiMarket, NetDragon's Android app distribution platform, and our leading position is bolstered even further. We are also delighted that this quarter witnessed strong revenue growth in our mobile games, contributing around 60% of mobile revenues, while maintaining the continuous growth of mobile advertising revenue. This increase in mobile games revenue allows for a more balanced revenue structure across our mobile internet business. We firmly believe that we will be delivering more good news from NetDragon's mobile internet business this year, with the increase in user base and user stickiness, driven by the rollout of 91 mobile member point system in the second half and improvement of mobile applications in terms of both content and end-user experience."

Second Quarter 2012 Business Highlights

Online Games

- Eudemons Online's Chinese version expansion pack "Legacy of Asgard" was officially launched. This EP hit a record high in monthly revenue during the testing in March 2012.
- NetDragon's first 3D MMORPG Dungeon Keeper Online entered preliminary open beta testing.
- The Spanish version of Conquer Online launched a new EP.
- NetDragon's first game as an overseas publishing agent, the Arabic version of DDTank(弹弹堂), completed its closed beta and is scheduled for internal beta testing in the third quarter of 2012.

Mobile Internet

- 91 PC Suite, NetDragon's multi-OS applications distribution platform for all mainstream operating systems, exceeded 100 million total users. Total users for HiMarket, NetDragon's Android applications distribution platform, exceeded 32 million. As of June 2012, total aggregate downloads from both marketplaces surpassed 6.8 billion.
- NetDragon announced the launch of its nationwide developer program "91 Win Matrix", inviting developers to join the 91 Open Mobile Platform for innovative mobile applications development. NetDragon will provide developers with comprehensive support, including technical, operational, financial and brand cooperation.
- 91 Application Center for Children, a vertical within 91 PC Suite, which focuses on recommending mobile applications for children and for mothers as a tool for interacting with their toddlers, was officially rolled out. This is NetDragon's first formal foray into the market segment for childcare products.
- In June 2012, NetDragon launched Bamboo Loft(竹香阁), a special content zone, and started inking agreements with individual authors in a move to expand the pool of quality content for 91 Panda Reader. The

special content zone enables real-time updates of user-selected content, greatly improving timeliness and prompting noticeable increase of 91 Panda Reader's daily paid users.

Recent Developments and Business Outlook

Online Games

- Eudemons Online's new Chinese EP is expected to enter closed beta testing in August. The EP will introduce a new Ghost Wizard class, providing a new and more advanced gaming style totally distinct from previous ones. The title is on track to launch open beta testing in September. The launch of two premier EPs within one year will allow the classic game to maintain its robust vitality and market appeal.
- The 3.0 version of Conquer Online is scheduled to be rolled out in the fourth quarter of 2012. The new version will come with significant improvements to the imagery based on a number of superior highlights of the 2.0 version, while making some changes to the game settings of the 2.0 version by incorporating more creative elements, in a move to create a brand new title. The launch aims to retain existing players and attract new players who love the martial-arts genre while, at the same time, focusing more on operational and competitive aspects of the game, with the goal of extending the game's lifecycle.
- The Turkish version of Conquer Online is slated to release a new EP, Invasion of Pirates, in the second half of the year.

Mobile Internet

- 91 Mobile added the new concept of "Enjoy Your Mobile Life in 91" at this year's China Joy, as 91 Mobile featuring ample application resources and several newly launched services, including the member point system, enables users to download massive applications and mobile games. Furthermore, users can accumulate points towards rewards each time they perform an action on 91 Mobile, significantly improving users' loyalty.
- HiMarket will help users more easily discover the content of interest through the roll-out of a large number of applications relying on new technologies such as data dig, smart recommendation and semantic search, in a move to improve user's stickiness.

Financial Highlights:

RMB('000)	2Q 2012	1Q 2012	QoQ(%)	1H 2012	1H 2011	YoY(%)
Revenue	276,133	236,975	16.5%	513,108	341,059	50.4%
-Online Games	200,992	191,581	4.9%	392,573	325,519	20.6%
-Mobile Internet	75,141	45,394	65.5%	120,535	15,540	675.6%
Gross Profit	233,675	208,700	12.0%	442,375	312,407	41.6%
GPM	84.6%	88.1%	(3.5%)	86.2%	91.6%	(5.4%)
Net Profit	44,986	55,873	(19.5%)	100,859	77,642	29.9%
Pro Forma Net Profit	68,683	64,563	6.4%	-	-	-
NPM	16.3%	23.6%	(7.3%)	19.7%	22.8%	(3.1%)
EPS-Basic (RMB cents)	8.75	10.88	(19.6%)	19.65	14.72	33.5%
EPS-Diluted (RMB cents)	8.73	10.87	(19.7%)	19.61	14.72	33.2%

Metrics

Online Games

	2Q 2012	1Q 2012	4Q 2011	3Q 2011	2Q 2011	1Q 2011
PCU	582,000	600,000	612,000	569,000	643,000	546,000
ACU	307,000	297,000	310,000	300,000	311,000	246,000

Pro Forma Financial Measures

To supplement the consolidated results of the Group prepared in accordance with HKFRS, certain pro forma financial measures, namely Pro Forma Operating Profit and Pro Forma Net Profit, have been presented in this press release. These unaudited pro forma financial measures should be considered in addition to, not as a substitute for, measures of the Group's financial performance prepared in accordance with HKFRS. In addition, these pro forma financial measures may be defined differently from similar terms used by other companies.

The Group's management believes that the pro forma financial measures provide investors with useful supplementary information to assess the performance of the Group's core operations by excluding certain non-cash items, namely valuation loss on derivative financial instruments and finance costs, on a non-tax adjusted basis, both items associated with convertible preferred shares and promissory notes issued by a Group subsidiary.

Management Conference Call

NetDragon will host a management conference call and webcast to review its 2012 interim unaudited financial results ended June 30, 2012 on Friday, August 24, 2012 Hong Kong time.

Details of the live conference call are as follows:

Time: 7:00 PM Beijing / Hong Kong Time / 7:00 AM Eastern Daylight Time, August 24, 2012

International Toll	65-6723-9381
US Toll Free	1-866-519-4004
Hong Kong Toll Free	800-930-346
China Toll Free (for fixed line users)	800-819-0121
China Toll Free (for mobile users)	400-620-8038
Passcode	NetDragon

Replay service is available from 10:00 PM August 24 to 09:59 PM September 1, 2012 HKT. Below are the replay numbers for different regions. International Toll: **61-2-8235-5000**; US Toll Free: **1-866-214-5335**; Replay passcode: **19371488**. A live and archived webcast of the conference call will be available on the Investor Relations section of NetDragon's website at http://ir.netdragon.com/investor/ir_events.shtml. Participants in the live webcast should visit the aforementioned website 10 minutes prior to the call, then click on the icon for "2012 Interim Results Conference Call" and follow the registration instructions.

About NetDragon

NetDragon Websoft Inc. (HKSE: 0777) is a leading innovator and creative force in China's online gaming and mobile internet industries. Established in 1999, we are a vertically integrated developer & operator of MMORPGs and a cutting-edge R&D powerhouse. We launched our first self-made online game Monster & Me in 2002, followed by multiple titles including Eudemons Online, Conquer Online and Heroes of Might & Magic Online. We are also China's pioneer in overseas expansion, directly operating titles in overseas markets since 2003 in English, Spanish, Arabic and other languages. In the mobile Internet industry, we provide China's leading marketplace for smartphone users, offering applications and content for the most popular mobile operating systems. NetDragon offers many well-known mobile Internet products and services, including 91 Panda Reader, 91 PC Suite, 91 Panda Space, sj.91.com and hiapk.com.

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2012**

	Three Months Ended		Six Months Ended	
	30/6/2012 (Unaudited) RMB '000	31/3/2012 (Unaudited) RMB '000	30/6/2012 (Unaudited) RMB '000	30/6/2011 (Unaudited) RMB '000
Revenue	276,133	236,975	513,108	341,059
Cost of revenue	(42,458)	(28,275)	(70,733)	(28,652)
Gross profit	233,675	208,700	442,375	312,407
Other income and gains	11,314	3,989	15,303	15,484
Selling and marketing expenses	(37,078)	(33,487)	(70,565)	(59,753)
Administrative expenses	(55,829)	(58,911)	(114,740)	(95,466)
Development costs	(50,164)	(45,786)	(95,950)	(75,602)
Other expenses	(14,986)	(1,721)	(16,707)	(2,653)
Net loss on derivative financial instruments	(19,378)	(3,961)	(23,339)	-
Finance costs	(4,319)	(4,729)	(9,048)	-
Share of losses of associates	(285)	(373)	(658)	(77)
Profit before taxation	62,950	63,721	126,671	94,340
Taxation	(17,964)	(7,848)	(25,812)	(16,698)
Profit for the period	44,986	55,873	100,859	77,642
Other comprehensive income (expense):				
Exchange differences arising on translation of foreign operations	89	(17)	72	(547)
Total comprehensive income for the period	45,075	55,856	100,931	77,095
Profit for the period attributable to:				
-Owners of the Company	45,032	55,771	100,803	77,529
-Non-controlling interests	(46)	102	56	113
	44,986	55,873	100,859	77,642
Total comprehensive income attributable to:				
- Owners of the Company	45,121	55,754	100,875	76,982
- Non-controlling interests	(46)	102	56	113
	45,075	55,856	100,931	77,095
	RMB cents	RMB cents	RMB cents	RMB cents
Earnings per share				
- Basic	8.75	10.88	19.65	14.72
- Diluted	8.73	10.87	19.61	14.72

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 AS AT 30 JUNE 2012**

	30 June 2012 (Unaudited) RMB '000	31 December 2011 (Audited) RMB '000
Non-current assets		
Property, plant and equipment	223,112	192,119
Prepaid lease payments	140,352	86,298
Investment property	15,897	15,809
Deposit paid for acquisition of property, plant and equipment	-	19,050
Intangible assets	3,379	4,520
Interests in associates	12,011	12,669
Available-for-sale investments	5,000	4,000
Loan receivables	4,837	6,314
Deferred tax assets	54	54
	<u>404,642</u>	<u>340,833</u>
Current assets		
Prepaid lease payments	2,902	1,784
Loan receivables	1,288	1,091
Trade receivables	47,158	41,555
Other receivables, prepayments and deposits	97,145	41,429
Amount due from related companies	2,265	1,200
Pledged bank deposit	183,967	-
Bank deposits	100,000	40,000
Bank balances and cash	1,319,828	1,428,928
	<u>1,754,553</u>	<u>1,555,987</u>
Current liabilities		
Trade payables	18,024	5,001
Other payables and accruals	88,647	121,353
Deferred income	30,657	25,528
Amount due to a related company	-	965
Secured bank borrowing	184,580	-
Other financial liability	3,098	-
Promissory notes	-	30,623
Income tax payable	40,127	42,849
	<u>365,133</u>	<u>226,319</u>
Net current assets	<u>1,389,420</u>	<u>1,329,668</u>
Total assets less current liabilities	<u>1,794,062</u>	<u>1,670,501</u>
Non-current liabilities		
Redeemable convertible preferred shares	170,034	131,675
Conversion option derivative liability	62,587	39,932
	<u>232,621</u>	<u>171,607</u>
Net assets	<u>1,561,441</u>	<u>1,498,894</u>
Capital and reserves		
Share capital	38,226	38,226
Share premium and reserves	1,517,820	1,461,126
Equity attributable to owners of the Company	<u>1,556,046</u>	<u>1,499,352</u>
Non-controlling interests	5,395	(458)
	<u>1,561,441</u>	<u>1,498,894</u>